



1 ENERGY AND ENVIRONMENT CABINET

2 Department for Natural Resources

3 Division of Mine Permits

4 (Amendment)

5 405 KAR 10:015. General bonding provisions.

6 RELATES TO: KRS 350.020, 350.060, 350.062, 350.064, 350.093, 350.095, 350.100,  
7 350.151, 350.465

8 STATUTORY AUTHORITY: KRS 350.060, 350.062, 350.064, 350.093, 350.095,  
9 350.100, 350.151, 350.465, 350.515, 350.518

10 NECESSITY, FUNCTION, AND CONFORMITY: KRS Chapter 350 authorizes the  
11 cabinet to promulgate administrative regulations to establish procedures for determining amounts  
12 for performance bonds for surface coal mining operations. This administrative regulation  
13 establishes criteria for the base determination of bond amounts and requires certain periods of  
14 liability during which the bonds shall remain in effect. This administrative regulation establishes  
15 requirements for filing and maintaining performance bonds and provides for adjustments in bond  
16 amounts and additional information related to minimum bonds and application of bonds to ensure  
17 performance of the requirements of KRS Chapter 350 in the event work is performed by the  
18 cabinet, taking into consideration such things as topography, geology, future land use, and the  
19 difficulty of reclamation.

1           Section 1. Bonding Requirements. (1) An applicant shall not disturb surface acreage or  
2 extend an underground shaft, tunnel, or operation prior to receipt of approval from the cabinet of  
3 a performance bond covering an area to be affected by surface operations and facilities.

4           (2) After an application for a new, amended, revised, or renewed permit to conduct surface  
5 coal mining and reclamation operations has been approved pursuant to 405 KAR Chapter 8, but  
6 before the permit is issued, the applicant shall file with the cabinet, on a form prescribed and  
7 furnished by the cabinet, a performance bond payable to the cabinet.

8           (a) The applicant shall file the Performance Bond, Form SME-42, for an operation on land  
9 other than federal lands, or the Performance Bond for Surface Coal Mining and Reclamation on  
10 Federal Lands, Form SME-42-F, for an operation on federal land.

11           (b) The performance bond shall be conditioned upon compliance with all of the  
12 requirements of KRS Chapter 350, 405 KAR Chapters 7 through 24, and the provisions of the  
13 reclamation plan and permit, and shall cover all surface coal mining and reclamation operations to  
14 be conducted within the permit area or increment thereof until all reclamation requirements of 405  
15 KAR Chapters 7 through 24 have been met.

16           (c) The amount, duration, type, conditions, and terms of the performance bond shall  
17 conform to the requirements of this administrative regulation.

18           (3) A permit shall not be revised or amended to include additional area unless the liability  
19 of the current bond is extended to cover the entire permit area or increment as revised or amended,  
20 and the liability of the supplemental bond covers the entire permit area as revised or amended.  
21 Unless these conditions are met with respect to the bond, the additional area shall be permitted as  
22 a separate increment of the current permit area or pursuant to a new permit.

(4) A rider to the applicable performance bond, confirming coverage of the revision, shall be submitted by the applicant if a revision to a permit does not change the acreage of the permit area or increment but:

(a) Adds a coal washer, a crush and load facility, a refuse pile, or a coal mine waste impoundment to the existing permit; or

(b) Alters the boundary of a permit area or increment.

Section 2. Terms and Conditions of Performance Bond. (1) The performance bond shall be in an amount determined by the cabinet as established in Sections 6, 7, and 8 of this administrative regulation.

(2) The performance bond shall be payable to the cabinet.

(3) The performance bond shall be conditioned upon faithful performance of all of the requirements of KRS Chapter 350, 405 KAR Chapters 7 through 24, and the conditions of the permit and shall cover the entire permit area or the incremental area as the cabinet has approved pursuant to Section 4(2) of this administrative regulation.

(4) The duration of the bond shall be for a time period established in Section 9 of this administrative regulation.

(5) Surety bonds shall be subject to the following conditions:

(a) The cabinet shall not accept the bond of a surety company unless the bond shall not be cancelable by the surety at any time for any reason.

1. Surety bond coverage for permitted lands not disturbed shall be cancelled only with the written approval of the cabinet, provided the surety gives written notice to both the permittee and the cabinet of the intent to cancel prior to the proposed cancellation.

a. A cancellation notice shall be by certified mail.

1           b. Cancellation shall not be effective for lands subject to bond coverage that are affected  
2 after receipt of notice, but prior to approval by the cabinet.

3           c. The cabinet shall approve a cancellation only if a replacement bond has been filed by  
4 the permittee, or if the permit area has been reduced by revision to the extent that the remaining  
5 bond amount, after cancellation, is sufficient to cover all the costs attributable to the completion  
6 of reclamation operations on the reduced permit area in accordance with Section 10 of this  
7 administrative regulation.

8           2. The cabinet shall advise the surety, within thirty (30) days after receipt of a notice to  
9 cancel bond, if the bond may be cancelled on an undisturbed area.

10          (b) The bond shall provide that the surety and the permittee shall be jointly and severally  
11 liable.

12          (c)1. The surety shall give prompt notice to the permittee and the cabinet of a notice  
13 received or action filed alleging the insolvency or bankruptcy of the surety, or alleging violations  
14 of regulatory requirements that could result in suspension or revocation of the surety's license to  
15 do business.

16          2. In the event the surety becomes unable to fulfill its obligations pursuant to the bond, the  
17 surety shall promptly provide written notice to the permittee and the cabinet.

18          3. Upon the incapacity of a surety by reason of bankruptcy, insolvency, or suspension or  
19 revocation of its license or certificate of authority, the permittee shall be deemed to be without  
20 proper bond coverage and shall promptly notify the cabinet.

21          a. Nothing in this paragraph shall relieve the permittee of responsibility pursuant to the  
22 permit or the surety of liability on the permittee's bond.

1           b. The cabinet shall issue a notice to the permittee specifying a reasonable period to replace  
2   bond coverage, not to exceed ninety (90) days.

3           c. If an adequate bond is not posted by the end of the period allowed, the permittee shall  
4   cease coal extraction and coal processing operations and shall comply with the provisions of 405  
5   KAR 16:010, Section 6, or 405 KAR 18:010, Section 4, and shall immediately begin to conduct  
6   reclamation operations in accordance with the reclamation plan.

7           d. Coal extraction and coal processing operations shall not resume until the cabinet has  
8   determined that an acceptable bond has been posted.

9           e. If an acceptable bond has not been posted by the end of the period allowed, the cabinet  
10   shall suspend the permit until acceptable bond is posted.

11          (d) A surety bond shall be executed by the operator and a corporate surety licensed to do  
12   business in the Commonwealth of Kentucky.

13          (6) Collateral bonds may include cash deposits with the cabinet, certificates of deposit, or  
14   letters of credit. Collateral bonds, except for letters of credit, shall be subject to the following  
15   conditions:

16          (a) The cabinet or its authorized agent shall obtain possession of and keep in custody all  
17   collateral deposited by the applicant, until authorized for release or replacement as established in  
18   405 KAR Chapter 10.

19          (b) The cabinet shall require that certificates of deposit be assigned to the cabinet or its  
20   authorized agent in writing, through the submittal of Escrow Agreement Form SME-64, and the  
21   assignment evidenced on the books of the bank issuing such certificates.

1 (c) The cabinet shall not accept an individual certificate of deposit unless it is issued by a  
2 FDIC or FSLIC insured financial institution, and the cabinet shall not in any circumstance accept  
3 a denomination in excess of the maximum insurable amount as determined by FDIC and FSLIC.

4 (d) The cabinet shall require the issuer of certificates of deposit to waive all rights of setoff  
5 or liens that it has or might have against those certificates.

6 (e) Persons with an interest in collateral posted as a bond, and who desire notification of  
7 actions pursuant to the bond, shall request the notification in writing to the cabinet upon an offering  
8 of collateral.

9 (f) The cabinet shall require the applicant to deposit sufficient amounts of certificates of  
10 deposit, so as to assure that the cabinet will be able to liquidate those certificates prior to maturity,  
11 upon forfeiture, for the amount of the bond required by this chapter.

12 (7) A letter of credit shall be subject to the following conditions:

13 (a)1. The letter shall only be issued by a bank organized or authorized to do business in the  
14 United States.

15 2. A letter of credit issued by a non-Kentucky lending institution shall be confirmed by an  
16 approved Kentucky lending institution.

17 (b) A letter of credit shall be irrevocable.

18 (c) The letter shall be payable to the cabinet upon demand and receipt from the cabinet of  
19 a notice of forfeiture issued in accordance with 405 KAR 10:050, or in the event the bank wishes  
20 to terminate the letter on its expiration date, the cabinet may draw upon demand. The Irrevocable  
21 Standby Letter of Credit, Form SME-72, and the Confirmation of Irrevocable Letter of Standby  
22 Credit, form SME-72-A, shall be submitted to the cabinet, as necessary.

1 (d)1. The issuer shall give prompt notice to the permittee and the cabinet of notice received  
2 or action filed alleging the insolvency or bankruptcy of the issuer, or alleging violations of  
3 regulatory requirements that could result in suspension or revocation of the issuer's charter or  
4 license to do business.

5 2. In the event the issuer becomes unable to fulfill its obligations pursuant to the letter of  
6 credit, notice shall be given immediately to the permittee and the cabinet.

7 3. Upon the incapacity of an issuer by reason of bankruptcy, insolvency, or suspension or  
8 revocation of its charter or license, the permittee shall be deemed to be without proper performance  
9 bond coverage and shall promptly notify the cabinet.

10 a. Nothing in this paragraph shall relieve the permittee of responsibility pursuant to the  
11 permit or the issuer of liability on the letter of credit.

12 b. The cabinet shall issue a notice to the permittee specifying a reasonable period to replace  
13 bond coverage, not to exceed ninety (90) days.

14 c. If an adequate bond is not posted by the end of the period allowed, the permittee shall  
15 cease coal extraction and coal processing operations and shall comply with the provisions of 405  
16 KAR 16:010, Section 6, or 405 KAR 18:010, Section 4, and shall immediately begin to conduct  
17 reclamation operations in accordance with the reclamation plan.

18 d. Coal extraction and coal processing operations shall not resume until the cabinet has  
19 determined that an acceptable bond has been posted.

20 e. If an acceptable bond has not been posted by the end of the period allowed, the cabinet  
21 shall suspend the permit until acceptable bond is posted.

22 (8) If a permittee chooses to combine two (2) or more bonds for one (1) permit area or  
23 increment, the bonds may be accompanied by a schedule, acceptable to the cabinet and agreed to

1 by all parties, which sets forth the agreed distribution of bond amounts to be released or reduced  
2 pursuant to 405 KAR 10:040 and Section 10 of this administrative regulation, respectively. If no  
3 schedule is submitted, the cabinet may release equal percentages of each bond.

4 (9) Permit specific bonds posted by members of the Voluntary Bond Pool on existing  
5 permits prior to the establishment of the Kentucky Reclamation Guaranty Fund shall be released  
6 in their entirety upon successfully achieving reclamation Phase I bond release in accordance with  
7 405 KAR 10:040, Section 2(4)(a). Permit specific bonds posted by members of the Voluntary  
8 Bond Pool on new permits after the establishment of the Kentucky Reclamation Guaranty Fund  
9 shall be released in equal percentages at each reclamation phase with the Kentucky Reclamation  
10 Guaranty Bond.

11 Section 3. Types of Performance Bond. (1) The cabinet shall approve performance bonds  
12 of only those types established in this section.

13 (2) The performance bond shall be a:

14 (a) Surety bond;

15 (b) Collateral bond;

16 (c) Bond filed pursuant to the provisions of the Kentucky Reclamation Guaranty Fund,  
17 KRS 350.518;

18 (d) Bond filed by the Voluntary Bond Pool; or

19 (e) Combination of the bond types listed in paragraphs (a) through (d) of this subsection.

20 (3) Bonds filed by the Voluntary Bond Pool prior to its repeal in 2013 Ky. Acts ch. 78,  
21 Section 12, shall be deemed valid and convey the same legal right as bonds issued by the KRGF.  
22 The amount, duration, conditions, and terms of bonds issued by the Voluntary Bond Pool shall be  
23 deemed in compliance with the requirements of this administrative regulation.



Section 4. Bonding Methods. The method of performance bonding for a permit area shall be selected by the applicant and approved by the cabinet prior to the issuance of a permit, and shall consist of one (1) of the following methods:

(1) Method "S" - single area bonding. A single area bond shall be a bond that covers the entire permit area as a single undivided area, for which the applicant shall file the entire bond amount required by the cabinet prior to issuance of the permit.

(a) Liability pursuant to the bond shall extend to every part of the permit area at all times.

(b) Except as provided in Section 9(2) of this administrative regulation regarding extended bond liability, there shall not be a release of all or part of the bond amount for completion of a particular phase of reclamation on a part of the permit area pursuant to 405 KAR 10:040 until that phase of reclamation has been successfully completed on the entire permit area.

(2) Method "I" - incremental bonding. Incremental bonding shall be a method of bonding in which the permit area shall be divided into individual increments, each of which is bonded separately and independently, and for which a bond shall be filed as operations proceed through the permit area.

(a) The permit area shall be divided into distinct increments subject to approval by the cabinet.

1. Each increment shall be of sufficient size and configuration to provide for efficient reclamation operations should reclamation operations by the cabinet become necessary.

2. If the approved postmining land use is of such nature that successful implementation of the postmining land use capability depends upon an area being integrally reclaimed, then that area shall be contained within a single increment.

1           3. These increments shall be clearly identified on maps submitted in the permit application  
2 pursuant to 405 KAR Chapter 8, and the applicant shall describe the approximate time schedule  
3 for beginning operations in each increment.

4           (b) Prior to issuance of a permit, the applicant shall file with the cabinet the full bond  
5 amount required by the cabinet for the first increment or increments of the permit area to be  
6 disturbed, which shall be not less than the minimum bond required for the permit area required  
7 pursuant to Section 7 of this administrative regulation.

8           (c) The permittee shall not engage in surface coal mining and reclamation operations on an  
9 increment of the permit area unless the full bond amount required by the cabinet has been filed  
10 with the appropriate regional office of the department for that increment, the cabinet has verified  
11 the validity of the bond, and written authorization to conduct surface coal mining and reclamation  
12 operations on that increment is issued by the administrator of the regional office. Credit shall not  
13 be given for reclamation on other increments.

14           (d) The boundaries of each increment shall be physically marked at the site in a manner  
15 approved by the cabinet pursuant to 405 KAR 16:030.

16           (e) The bond amount for an increment shall be released or forfeited independently of  
17 another increment of the permit area, and liability pursuant to the performance bond shall extend  
18 only to the increment expressly covered by the bond. A single bond amount may be filed to cover  
19 more than one (1) increment, in which case the increments covered shall be treated as a single  
20 increment.

21           (f) Except as provided in Section 9(2) of this administrative regulation regarding extended  
22 bond liability, there shall not be a release of bond for completion of a phase of reclamation on part

1 of an increment until that phase of reclamation has been successfully completed on the entire  
2 increment.

3 (g) If the bond for an increment is completely released pursuant to 405 KAR 10:040, the  
4 increment shall be deleted from the permit area.

5 Section 5. Substitution of Bonds. (1) The cabinet may allow permittees to substitute  
6 existing surety or collateral bonds for equivalent surety or collateral bonds, in which case the  
7 liability that has accrued against the permittee on the permit area or increment is transferred to  
8 such substitute bonds.

9 (2) The cabinet shall not release existing performance bonds until the permittee has  
10 submitted and the cabinet has approved acceptable substitute performance bonds. A substitution  
11 of performance bonds pursuant to this section shall not constitute a release of bond pursuant to 405  
12 KAR 10:040.

13 (3) The cabinet may refuse to allow substitution of bonds if an action for revocation or  
14 suspension of the permit covered by the bond is pending or if there is a pending action for forfeiture  
15 of the bond.

16 Section 6. Determination of Bond Amounts. (1) In determining the bond amount, the  
17 cabinet shall estimate the cost to the cabinet if the cabinet had to perform the reclamation,  
18 restoration, and abatement work required of a person who conducts surface coal mining and  
19 reclamation operations pursuant to KRS Chapter 350, 405 KAR Chapters 7 through 24, and the  
20 permit, except as provided in subsection (4) of this section. This amount shall be based on:

21 (a) The estimated costs submitted by the permittee in accordance with 405 KAR 8:030,  
22 Section 24(4), and 405 KAR 8:040, Section 24(4);

1 (b) The additional estimated costs to the cabinet that may arise from applicable public  
2 contracting requirements or the need to bring personnel and equipment to the permit area after its  
3 abandonment by the permittee to perform reclamation, restoration, and abatement work;

4 (c) All additional estimated costs necessary, expedient, and incident to the satisfactory  
5 completion of the requirements identified in this section;

6 (d) An additional amount based on factors of cost changes during the previous five (5)  
7 years for the types of activities associated with the reclamation to be performed; and

8 (e) Other cost information required or available to the cabinet.

9 (2) If the reclamation cost calculated submitted in a permit application is higher than the  
10 minimum bond or bond calculated by the cabinet, the higher calculation shall be used in any issued  
11 permit.

12 (3) The cabinet shall review the bonding amounts identified in Sections 7 and 8 of this  
13 administrative regulation at a minimum of every two (2) years to determine if the amounts are  
14 adequate due to inflation and increases in reclamation costs.

15 (4) Full cost bonding participants shall provide the cabinet a cost estimate that reflects the  
16 costs of reclamation to the cabinet in accordance with the requirements of 405 KAR 10:080,  
17 Section 3.

18 Section 7. Minimum Bond Amount. The minimum amount of the bond for surface coal  
19 mining and reclamation operations at the time the permit is issued or amended shall be:

20 (1) \$75,000 for the entire surface area under one (1) permit;

21 (2) \$75,000 per increment for incrementally bonded permits, subject to Section 4(2) of this  
22 administrative regulation;

(3) \$50,000 for a permit or increment operating on previously mined areas, as defined in of 405 KAR 8:001, Section 1(86), to be evaluated by the cabinet; or

(4) \$10,000 for underground mines that have only underground operations.

Section 8. Bonding Rate of Additional Areas. Areas of a surface coal mine and reclamation operation shall be bonded at the following rates for a permit issued by the Division of Mine Permits:

(1) Coal haul roads, other mine access roads, and mine management areas shall be bonded at \$2,500 per acre and each fraction thereof.

(2) Refuse disposal areas shall be bonded at a minimum rate of \$7,500 per acre and each fraction thereof.

(3)(a) An embankment sediment control pond shall be bonded at a rate of \$10,000 per acre and each fraction thereof, with each pond being measured separately, if the pond is located off-bench and located downstream and outside the proposed mining or spoil storage area.

(b) This rate may be applied to partial embankment structures as necessary to meet the requirements of Section 6(1) of this administrative regulation.

(4) Coal preparation plants shall be bonded at the base acreage rate, in accordance with subsection (6) of this section, in addition to the costs associated with demolition and disposal costs relating to concrete, masonry, steel, timber, and other materials associated with surface coal mining and reclamation operations.

(5) Operations on previously mined areas, as defined in 405 KAR 8:001, Section 1(86), shall be bonded at rate of \$2,000 per acre and each fraction thereof.

1 (6) All areas of surface coal mining and reclamation operations not otherwise addressed in  
2 subsections (1) through (5) of this section shall be bonded at the rate of \$3,500 per acre and each  
3 fraction thereof.

4 (7)(a) For permits that have been identified as requiring ~~[a producer of]~~ long-term treatment  
5 ~~[drainage]~~, the cabinet shall calculate an additional bond or other financial assurance instrument  
6 amount based on the estimated annual treatment cost, provided by the permittee and verified by  
7 the cabinet, multiplied by a factor of twenty-five (25) [twenty (20) years] plus any capital costs of  
8 the treatment system.

9 (b) The long-term treatment cost estimate shall be subject to verification and acceptance  
10 by the cabinet. The department shall use its own estimate for annual treatment costs if the  
11 department cannot verify the accuracy of the permittee's estimate.

12 ~~[(c) In lieu of this calculation, the permittee may submit a remediation plan to be approved~~  
13 ~~by the cabinet for the areas deemed to be producing substandard drainage.~~

14 ~~1. The remediation plan shall demonstrate that substandard discharge shall be permanently~~  
15 ~~abated by land reclamation techniques prior to phase II bond release.~~

16 ~~2. If the department rejects the plan, the permittee shall submit the additional acid mine~~  
17 ~~drainage bond previously established in this section.]~~

18 Section 9. Period of Liability. (1) Liability pursuant to a performance bond applicable to  
19 an entire permit area or increment thereof shall continue until all reclamation, restoration, and  
20 abatement work required of persons who conduct surface coal mining and reclamation operations  
21 pursuant to requirements of KRS Chapter 350, 405 KAR Chapters 7 through 24, and the provisions  
22 of the permit have been completed, and the permit or increment terminated by release of the  
23 permittee from further liability in accordance with 405 KAR 10:040.

1 (2) In addition to the period necessary to achieve compliance with all of the requirements  
2 of KRS Chapter 350, 405 KAR Chapters 7 through 24, and the permit, including the standards for  
3 the success of revegetation as required by 405 KAR 16:200 and 405 KAR 18:200, the period of  
4 liability pursuant to a performance bond shall continue for a period of five (5) years beginning  
5 with the last year of augmented seeding, fertilizing, irrigation, or other work.

6 (a) The period of liability shall begin again upon augmented seeding, fertilizing, irrigation,  
7 or other work required or conducted on the site prior to bond release.

8 (b) Isolated and clearly defined portions of a bonded area requiring extended liability  
9 because of augmentation may be separated from the original area and bonded separately upon  
10 approval by the cabinet.

11 (c) These areas shall be limited in extent, and not constitute a scattered, intermittent, or  
12 checkerboard pattern of failure.

13 (d) Access to the separated areas for remedial work may be included in the area pursuant  
14 to extended liability if necessary.

15 (3) If the cabinet approves a long-term intensive agricultural postmining land use in  
16 accordance with 405 KAR 16:210, augmented seeding, fertilization, irrigation, or other husbandry  
17 practices normally associated with the approved postmining land use shall not require restarting  
18 the five (5) year period of liability.

19 (4) The bond liability of the permittee shall include only those actions that the permittee is  
20 required to take pursuant to the permit, including completion of the reclamation plan in a manner  
21 that the land will be capable of supporting a postmining land use approved pursuant to 405 KAR  
22 16:210. Actions of third parties beyond the control and influence of the permittee and for which  
23 the permittee is not responsible pursuant to the permit shall not be covered by the bond.

1           Section 10. Adjustment of Amount. (1) The amount of the performance bond liability  
2 applicable to a permit or increment shall be adjusted by the cabinet if the:

3           (a) Acreage in the permit area or increment is either increased or decreased; or

4           (b) Cabinet determines that the cost of future reclamation, restoration, or abatement work  
5 has changed. If it is determined that an adjustment pursuant to this paragraph is necessary, the  
6 cabinet shall:

7           1. Notify the permittee, the surety, and any person with a property interest in collateral who  
8 has previously requested such a notification in writing; and

9           2. Provide the permittee an opportunity for an informal conference on the adjustment. The  
10 requirements of 400 KAR 1:090 and 400 KAR 1:110 shall not apply to the conduct of the  
11 conference.

12           (2) The amount of the performance bond liability applicable to a permit or increment may  
13 be adjusted by the cabinet upon application by the permittee under 405 KAR 8:010, Section 20, to  
14 delete acreage from the permit area or increment thereof if the acreage has not been affected by  
15 the surface coal mining and reclamation operation. The provisions of 405 KAR 10:040, Section  
16 2(3), shall apply. A reduction due to such a deletion of acreage shall not constitute a bond release  
17 and shall not be subject to the procedures of 405 KAR 10:040, Section 1.

18           (3) The cabinet may grant reduction of the required performance bond amount if the  
19 permittee's method of operation or other circumstances will reduce the maximum estimated cost  
20 to the cabinet to complete the reclamation responsibilities and therefore warrant a reduction of the  
21 bond amount. The request shall not be considered as a request for partial bond release subject to  
22 the procedures of 405 KAR 10:040, Section 1.



(4) The cabinet shall refuse to approve a reduction of the performance bond liability amount if an action for revocation or suspension of the permit covered by the bond is pending, if there is a pending action for forfeiture of the bond, or if the permittee is currently in violation of 405 KAR Chapters 7 through 24 on that permit or increment.

Section 11. Supplemental Assurance. (1) If alternative distance limits or additional pits are approved pursuant to 405 KAR 16:020, Section 2, the applicant shall submit to the cabinet supplemental assurance in the amount established in this section. This supplemental assurance shall be for the purpose of assuring the reclamation of the additional unreclaimed disturbed area and shall be in addition to the performance bond required pursuant to 405 KAR Chapter 10. The applicant shall submit supplemental assurance on the cabinet form, Supplemental Assurance, SME-42 (SA). This form shall be accompanied by the Escrow Agreement form (for use with Supplemental Assurance form only), SME-64 (SA).

(a) The supplemental assurance shall not be subject to the bond release requirements of 405 KAR 10:040, but shall be returned in accordance with the requirements of this section.

(b) The requirements of Sections 2, 3, and 5 of this administrative regulation and 405 KAR 10:035 and 10:050 shall apply to supplemental assurance.

(2) Single seam contour mining. For single seam contour operations subject to 405 KAR 16:020, Section 2(3), the amount required shall be \$150,000 per 1,500 feet, or any portion thereof, of additional distance approved for the first pit pursuant to 405 KAR 16:020, Section 2(3). If an additional pit or pits are approved, the amount shall be \$150,000 per 1,500 feet, or any portion thereof, including the first 1,500 feet of each additional pit.

(3) Multiple seam contour mining. For multiple seam contour mining operations subject to 405 KAR 16:020, Section 3(6) [~~Section 2(4)~~], the amount required shall be \$150,000 per 1,500

1 feet, or any portion thereof, of additional distance approved for the first multiple seam operation  
2 pursuant to of 405 KAR 16:020, Section 2(4). If additional multiple seam operations are approved,  
3 the amount shall be \$150,000 per 1,500 feet, or any portion thereof, including the first 1,500 feet  
4 of each additional multiple seam operation.

5 (4) Mountaintop removal. If a mountaintop removal operation begins by mining a contour  
6 cut around all or a portion of the mountaintop, that contour portion shall require the same  
7 supplemental assurance established in subsection (2) of this section.

8 (5) Area mining. The amount required shall be \$150,000 for any four (4) spoil ridges, or  
9 any portion thereof, of additional distance approved for the first pit pursuant to 405 KAR 16:020,  
10 Section 2(1). If an additional pit or pits are approved, the amount shall be \$150,000 for any four  
11 (4) spoil ridges, or any portion thereof, including the first four (4) spoil ridges of each additional  
12 pit.

13 (6) Return of supplemental assurance. Supplemental assurance shall be returned to the  
14 person that submitted it upon:

15 (a) Application to the cabinet for the return; and

16 (b) Inspection and written documentation (including photographs) by the cabinet verifying  
17 that the area for which the supplemental assurance was submitted has been backfilled and graded  
18 (or in the case of mountaintop removal, the associated highwall has been eliminated by mining  
19 operations).

20 Section 12. Incorporation by Reference. (1) The following material is incorporated by  
21 reference:

22 (a) "Performance Bond, Form SME-42", June 2013;

23 (b) "Irrevocable Standby Letter of Credit, Form SME-72", July 1994;

1 (c) "Confirmation of Irrevocable Standby Letter of Credit, Form SME-72-A", July 1994;

2 (d) "Supplemental Assurance, SME-42 (SA)", July 1994;

3 (e) "Escrow Agreement (for use with Supplemental Assurance form only), SME-64 (SA)",

4 July 1994;

5 (f) "Escrow Agreement, Form SME-64", October 2008;

6 (g) "Remining Issues and Procedures, Reclamation Advisory Memorandum No. 154", May

7 2012; and

8 (h) "Performance Bond for Surface Coal Mining and Reclamation on Federal Lands, Form

9 SME-42-F", June 2013.

10 (2) This material may be inspected, copied, or obtained, subject to applicable copyright

11 law, at the Kentucky Department for Natural Resources, 300 Sower Boulevard, Frankfort, KY

12 40601, Monday through Friday, 8 a.m. to 4:30 p.m.

405 KAR 10:015 approved for filing.  
Pages (1-19)

3/13/2019

Date

Charles G. Snavely

Charles G. Snavely, Secretary  
Energy and Environment Cabinet

**PUBLIC HEARING AND PUBLIC COMMENT PERIOD:** A public hearing on this administrative regulation shall be held on April 24, 2019 at 5:00 P.M. (Eastern Time) in Training Room C of the Energy and Environment Cabinet at 300 Sower Blvd, Frankfort, Kentucky. Individuals interested in being heard at this hearing shall notify this agency five workdays prior to the hearing of their intent to attend. If no notification of intent to attend the hearing is received by that date, the hearing may be cancelled. This hearing is open to the public. Any person who wishes to be heard will be given an opportunity to comment on the proposed administrative regulation. A transcript of the public hearing will not be made unless a written request for a transcript is made. If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted through April 30, 2019. Send written notification of intent to attend the public hearing or written comments on the proposed administrative regulation to the contact person.

**CONTACT PERSON:** Michael Mullins, Regulation Coordinator, 300 Sower Blvd, Frankfort, Kentucky 40601, phone: (502) 782-6720, fax: (502) 564-4245, email: michael.mullins@ky.gov.

## REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Administrative Regulation No.: 405 KAR 10:015  
Contact Person: Michael Mullins

Contact number: (502) 782-6720  
Email: michael.mullins@ky.gov

(1) Provide a brief summary of:

(a) What this administrative regulation does: This administrative regulation establishes criteria for base determination of reclamation bond amounts, liability periods, long-term treatment financial assurance and requirements for filing and maintaining performance bonds for surface coal mining operations.

(b) The necessity of this administrative regulation: This administrative regulation is necessary to ensure adequate bonds or other financial assurance instruments are held by the cabinet to ensure performance of the requirements of KRS Chapter 350 in the event reclamation or remediation work is performed by the cabinet.

(c) How this administrative regulation conforms to the content of the authorizing statutes: KRS Chapter 350 provides the cabinet the authority to promulgate administrative regulations to implement a permanent program to regulate coal mining in the commonwealth. This administrative regulation establishes procedures for determining amounts for performance bonds for surface coal mining operations.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation assists in the effective administration of the statutes by establishing the criteria for determination of bond amounts, liability periods, long-term treatment financial assurance and requirements for filing and maintaining performance bonds for surface coal mining operations and ensures adequate bonds are held by the cabinet to perform the requirements of KRS Chapter 350 in the event reclamation or remediation work is performed by the cabinet.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation: This amendment makes changes requested by the Office of Surface Mining Reclamation and Enforcement to the bonding protocol program amendment regarding long-term treatment financial assurance calculation that was submitted by the cabinet.

(b) The necessity of the amendment to this administrative regulation: This amendment is necessary to change the multiplier for long-term treatment financial assurance calculations. This amendment also removes the provision to allow a remediation plan in lieu of payment of the long-term treatment bond.

(c) How the amendment conforms to the content of the authorizing statutes: KRS Chapter 350 provides the cabinet the authority to promulgate administrative regulations to establish

procedures for determining amounts and additional information for performance bonds for surface coal mining operations. This amendment changes the bonding protocol program regarding long-term treatment financial assurance calculations.

(d) How the amendment will assist in the effective administration of the statutes: KRS 350.064 requires reclamation bond to be filed by the applicant. This amendment alters the criteria for calculations for long-term treatment bonds.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This provision would apply to any entity that operates surface coal mine operation that is conducting long-term treatment within Kentucky. This provision would also apply to the Department for Natural Resources and the Division of Water.

(4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: The entities listed in question (3) above who are conducting long-term treatment on surface coal mining operations will be required to use the new multiplier and post required financial assurance instrument for those sites.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): There is not a standard cost increase associated with the proposed amendments. Any additional cost to a permittee performing long-term treatment will be reflected in the amount of the financial assurance instrument which is going from a multiplier of 20 to 25 for annual treatment costs.

(c) As a result of compliance, what benefits will accrue to the entities identified in question (3): The Department for Natural Resources will benefit by ensuring adequate financial assurance is held by the cabinet to satisfy the requirements of KRS Chapter 350 in the event work is performed by the cabinet. The regulated entities with long-term treatment sites will benefit by providing a more reliable amount of financial assurance.

(5) Provide an estimate of how much it will cost the administrative body to implement this administrative regulation:

(a) Initially: There will be no costs to the department associated with implementation of this amendment.

(b) On a continuing basis: There will be no costs to the department associated with implementation of this amendment.

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: The funding for implementation of the amendments to this administrative regulation will be a combination of general funds and restricted funds.

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: The amendments to this administrative regulation will not require an increase in fees or funding.

(8) State whether or not this administrative regulation established any fees or directly or indirectly increased any fees: This administrative regulation does not establish or increase any fees.

(9) TIERING: Is tiering applied? (Explain why or why not) No. All entities that operate a coal mine will be required to meet the same requirements as it relates to sites with long term treatment concerns.



## FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

Administrative Regulation No.: 405 KAR 10:015  
Contact Person: Michael Mullins, Reg. Coordinator

Contact number: (502) 782-6720  
Email: Michael.mullins@ky.gov

1. What units, parts or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? The Division of Mine Permits, Division of Mine Reclamation and Enforcement, and the Division of Water.

2. Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 350.060, 350.062, 350.064, 350.093, 350.095, 350.100, 350.151, 350.465, 350.515, 350.518.

3. Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? This amended administrative regulation will not generate any new revenue for the state or local government.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? This amended administrative regulation will not generate revenue in subsequent years.

(c) How much will it cost to administer this program for the first year? There will not be a cost increase associated with the amendments to this administrative regulation.

(d) How much will it cost to administer this program for subsequent years? Future costs would remain essentially unchanged related to this amendment.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-):	There is no known effect on current revenues.
Expenditures (+/-):	There is no known effect on current expenditures.
Other Explanation:	There is no further explanation.

## FEDERAL MANDATE ANALYSIS COMPARISON

Administrative Regulation No.: 405 KAR 10:015  
Contact Person: Michael Mullins, Reg. Coordinator

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1. Federal statute or regulation constituting the federal mandate. 30 C.F. R. 800.17
2. State Compliance Standards. KRS 350.028 and KRS 350.060.
3. Minimum or uniform standards contained in the federal mandate. 30 C.F. R. Part 800 are federal regulations related to bonding and insurance requirements for surface coal mining and reclamation operations under regulatory programs.
4. Will this administrative regulation impose stricter requirements, or additional or different responsibilities or requirements, than those required by the federal mandate? No. The amendments will make Kentucky's mining program similar to the federal program related to the bonding long-term treatment sites.
5. Justification for the imposition of the stricter standard, or additional or different responsibilities or requirements. NA